Southend-on-Sea City Council

Agenda Item No.

Title: **Annual Treasury Management Report – 2022/23**

Meeting: Cabinet
Date: 18 July 2023
Classification: Part 1
Policy Context:

Key Decision: No
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Executive Councillor: Councillor Cox Leader and Cabinet Member for SEND

1. Executive Summary

1.1. The Annual Treasury Management Report covers the treasury activity for the period from April 2022 to March 2023 and reviews performance against the Prudential Indicators for 2022/23.

2. Recommendation

That Cabinet;

2.1. **Approves the Annual Treasury Management Report for 2022/23 and the outturn Prudential Indicators for 2022/23.**

2.2. **Notes that the financing of 2022/23 capital expenditure of £51.822m has been funded in accordance with the schedule set out in Table 1 of section 4.**

2.3. **Notes that Capital Financing and Treasury Management were carried out in accordance with statutory requirements, good practice and in compliance with the CIPFA (The Chartered Institute of Public Finance and Accountancy) Prudential Code during 2022/23.**

2.4. **Notes the following in respect of the return on investment and borrowing;**

- **The loan and investment portfolios were actively managed to minimise cost and maximise interest earned, whilst maintaining a low level of risk.**

- **£3.773m of interest and income distributions for all investments were earned during 2022/23 at an average rate of 2.37%. This is 0.13% over the average SONIA rate (Sterling Overnight Index Average) and 0.07% over the average bank base rate. Also, the value of the externally managed funds decreased by a net of £7.335m due to the changes in the unit price, giving a combined return of -2.24%. (Section 7).**

- **The level of borrowing from the Public Works Loan Board (PWLB) (excluding debt relating to services transferred from Essex County Council on 1st April 1998) remained at £347.3m (Housing Revenue Account (HRA): £74.2m, General Fund (GF): £273.1m) throughout 2022/23.**

- **The level of financing for 'invest to save' schemes decreased from £8.39m to £8.22m by the end of 2022/23.**

3. Background

3.1. The CIPFA Prudential Code requires the Council to set Prudential Indicators for its capital expenditure and treasury management activities and to report on them after the end of the financial year.

3.2. This Council has adopted the 'CIPFA Code of Practice for Treasury Management in the Public Sector' and operates its treasury management service in compliance with this Code. The Code requires the reporting of treasury management activities to:

- Review actual activity for the preceding year (this report); and
- Forecast the likely activity for the forthcoming year (in the Treasury Management and Prudential Indicators Report in February).

3.3. The Prudential Code is the key element in the system of capital finance that was introduced from 1st April 2004 as set out in the Local Government Act 2003. The Code has been developed to support Local Authorities in taking capital investment decisions and to ensure that these decisions are supported by a framework which ensures proportionality, prudence, affordability and sustainability.

3.4. To demonstrate compliance with these objectives of proportionality, prudence, affordability and sustainability each local authority is required to produce a set of prudential indicators and to update these annually as part of setting the Council's budget.

4. Prudential Indicators

4.1. Appendix A provides a schedule of the prudential indicators.

4.2. Capital Expenditure

The first of these is the amount of capital expenditure in the year on long term assets. The table below shows this and the ways it has been financed.

Table 1: Capital Expenditure and Financing

	2022/23 Revised Budget £000s	2022/23 Actual £000s	2022/23 Variance £000s
Total Capital Expenditure	**61,820**	**51,822**	**(9,998)**
Financed by:			
Borrowing[1]	28,589	25,999	(2,590)
Invest to Save Financing[1]	2,386	1,729	(657)
Capital Receipts	1,702	987	(715)
Capital Grants Utilised	15,859	11,268	(4,591)
Major Repairs Reserve	8,129	6,161	(1,968)
Other Revenue/ Capital Reserve Contributions	4,212	4,432	220
Other Contributions	943	1,246	303
Total Financing	**61,820**	**51,822**	**(9,998)**

Note 1 - this relates to both internal and external borrowing but for 2022/23 this was only internal borrowing and no external borrowing was undertaken.

The capital expenditure financed by most types of funding was lower than budgeted but the largest underspend is the capital expenditure financed by grants. This is mainly due to underspends on schemes to be delivered by partners and joint ventures such as the Better Queensway SELEP funding for enabling works and the Getting Building Fund monies for the No Use Empty initiative.

As at 31 March 2023 actual borrowing by the HRA was £99.752m, comprising £74.168m external borrowing and £25.584m internal borrowing.

The HRA can also finance its capital spend from the major repairs reserve, from grants and directly from the HRA by way of revenue contributions to capital.

4.3. Capital Financing Requirement (CFR)

The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a measure of the Council's debt position and represents capital expenditure up to the end of 2022/23 which has not yet been charged to revenue. The process of charging the capital expenditure to revenue is a statutory requirement and is done by means of the Minimum Revenue Provision (MRP). The Council's CFR is shown in table 2 and is a key prudential indicator.

Table 2: Capital Financing Requirement (CFR)

	31st March 2023 Revised Budget £000s	**31st March 2023 Actual £000s**
Balance 1st April 2022	426,741	426,741
Plus: capital expenditure financed by borrowing	30,975	27,728
Plus: fixed assets subject to finance leases	0	45
Less: Repayments of capital long term investments	0	(61)
Less: Minimum Revenue Provision	(10,912)	(11,296)
Balance 31st March 2023	446,804	443,157

The CFR is the Council's theoretical need to borrow but the Section 151 Officer can manage the Council's actual borrowing position by either borrowing to the CFR, choosing to use temporary cash flow funds instead of borrowing (internal borrowing) or borrowing for future increases in the CFR (borrowing in advance of need). The Section 151 Officer currently manages the Council's actual borrowing position in the second of the above CFR scenarios.

Of the sum in table 2 above, the Council has already addressed the theoretical need to borrow by having undertaken external borrowing and credit arrangements of £357.449m and by internally borrowing the remaining £85.708m.

4.4. Treasury Position on Borrowing and Investments

The overall treasury position at 31 March 2023 compared with the revised budget is set out in the table on the next page.

Table 3: Treasury Position

	31 March 2023 Revised Budget	31 March 2023 Actual	
	Principal £000s	Principal £000s	Average Rate (%)
Total gross Debt# (excluding ECC transferred debt)	359,154	357,449	3.47

This includes PWLB borrowing of £347.332m with the balance being invest to save financing and finance leases (as these are credit arrangements).

In order to ensure that borrowing levels are prudent over the medium term, the Council's gross external borrowing must only be for a capital purpose. Gross borrowing should not therefore, except in the short term, exceed the CFR for 2022/23 plus the expected changes to the CFR over 2023/24 and 2024/25. The table below shows that the Council has complied with this requirement.

Table 4: CFR compared to Gross Borrowing Position

	31 March 2023 Revised Budget £000s	31 March 2023 Actual £000s
Gross borrowing position	359,154	357,994
Estimated Capital Financing Requirement at 31 March 2025		467,744

4.5. Authorised Limit, Operational Boundary and Ratio of Financing Costs

In addition to ensuring that the net borrowing position is lower than the CFR, the Council is required to set gross borrowing limits. These are detailed below with the actual positions during the year.

Table 5: Borrowing limits

	2022/23 (£000s)
Authorised Limit	395,000
Operational Boundary	385,000
Maximum gross borrowing position during the year	357,986
Financing costs as a proportion of net revenue stream	15.25%

The Authorised Limit is the “Affordable Borrowing Limit” required by the Local Government Act 2003. This is the outer boundary of the Council’s borrowing based on a realistic assessment of the risks. The table on the previous page demonstrates that during 2022/23 the Council has maintained gross borrowing within its Authorised Limit.

The Operational Boundary is the expected borrowing position of the Council during the year, and periods where the actual position is either below or over the Boundary are acceptable subject to the Authorised Limit not being breached. The Council has maintained borrowing within the boundary throughout 2022/23.

The indicator “financing costs as a proportion of net revenue stream” identifies the cost of capital (i.e. borrowing costs) as a proportion of the Council’s budget requirement. For the General Fund the actual figure in 2022/23 was 15.25%.

4.6. Maturity structure of borrowing (against maximum position)

The table below shows the upper limits for which the Council delegates its length of borrowing decisions to the Executive Director (Finance and Resources)/Section 151 Officer in 2022/23 and the actual maturity structure of the borrowing as at 31st March 2023.

Table 6: Maturity Structure of Borrowing

	Upper limit %	**Outstanding debt maturity at 31st March 2023 %**
Under 12 months	20	0
12 months and within 24 months	30	2
24 months and within 5 years	40	9
5 years and within 10 years	60	18
10 years and within 20 years	100	22
20 years and within 30 years	100	3
30 years and above	80	46

The percentages in each category for the upper limits do not add up to 100% as they do not represent an actual allocation.

5. Treasury Management Strategy

5.1. During 2022/23 the Council complied with all of the relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of the Code of Practice for Treasury Management means its treasury practices demonstrate a low risk approach.

5.2. The Council is aware of the risks of passive management of the treasury portfolio and has taken steps to monitor the proactive management of the debt and investments over the year with the support of its treasury management advisers.

5.3. Shorter-term variable rates and likely future movements in these rates predominantly determine the Council's in-house investment return. These returns can therefore be volatile and, whilst the risk of loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.

5.4. The bank base rate increased incrementally from 0.75% to 4.25% during the year which positively impacted the investment return on monies being managed in-house.

5.5. The monies being managed by external fund managers were all impacted by the prevailing market conditions to varying extents. The income distributions held up well across the fund managers, with higher returns achieved the longer the term of the underlying assets. Property funds had higher income distributions than the short-dated bond funds, which in turn had higher income distributions than the enhanced cash fund.

5.6. The externally managed funds were impacted to different extents with regard to the value of the units. The value of the enhanced cash fund was adversely affected by the difficult market conditions but to a lesser extent than the short-dated bond funds. However, the decreases in the property fund unit values were larger than the other funds due to lower property valuations across many sectors, with the impact depending on the mix of properties in each fund. However, even though the property funds reduced in value by £6.555M it should be noted that this was in some part a correction of the large gains made during 2021/22 of £5.442M.

5.7. In line with the capital finance and accounting regulations the Financial Instrument Revaluation reserve is used to capture all the changes in the unit value of the funds so they do not affect the General Fund balance. (See sections 7, 8 and 9 for the performance of the externally managed funds.

5.8. Long term interest rates from the Public Works Loans Board (PWLB) fluctuated throughout 2022/23 in response to economic events: 10 year PWLB rates between 2.38% and 5.47%; 25 year PWLB rates between 2.52% and 5.88% and 50 year PWLB rates between 2.24% and 5.32%. These rates are after the PWLB 'certainty rate' discount of 0.20%.

5.9. No new PWLB loans were taken out during 2022/23.

5.10. The level of PWLB borrowing at £347.332m is in line with the financing requirements of the capital investment programme and the revenue costs of this borrowing are fully accounted for in the revenue budget. The current level of borrowing is also in line with the Council's prudential indicators and is proportionate, prudent, affordable and sustainable.

6. Borrowing

PWLB and short-term borrowing

6.1. The table below summarises the PWLB borrowing activities during the financial year 2022/23:

Table 7: PWLB borrowing

Quarter	Borrowing at beginning of quarter (£m)	New Borrowing (£m)	Re-financing (£m)	Borrowing repaid (£m)	Borrowing at end of quarter (£m)
April to June 2022	347.3	0.0	0.0	0.0	347.3
July to September 2022	347.3	0.0	0.0	0.0	347.3
October to December 2022	347.3	0.0	0.0	0.0	347.3
January to March 2023	347.3	0.0	0.0	0.0	347.3*

* All PWLB loans are fixed rate maturity loans.

6.2. The Council's outstanding PWLB borrowing as at 31st March 2023 was:

- Southend-on-Sea City Council £347.3m*
- ECC transferred debt £9.2m

* £273.1m General Fund and £74.2m Housing Revenue Account.

6.3. Repayments in 2022/23 were:

- Southend-on-Sea City Council £0.000m
- ECC transferred debt £0.426m

6.4. Outstanding debt relating to services transferred from Essex County Council (ECC) on 1st April 1998, remains under the management of ECC. Southend Borough Council reimburses the debt costs incurred by the County. The debt is recognised as a deferred liability on our balance sheet.

6.5. The table on the next page summarises our PWLB borrowing position as at the end of 2022/23:

Table 8: Debt position

	31 March 2023		31 March 2022	
	Principal (£000s)	Average Rate (%)	Principal (£000s)	Average Rate (%)
-PWLB – Fixed	347,332*	3.46	347,332*	3.66
-ECC Transferred Debt	9,216	2.33	9,641	2.34

* £273.1m General Fund and £74.2m Housing Revenue Account.

6.6. Some of the Council's borrowings are at a higher interest rate than the current rate of borrowing. To redeem these loans before their maturity date (i.e. to redeem them early) the Council would be required to pay a premium (this is like paying to redeem a mortgage early except the amount of the penalty depends on the prevailing rate of interest). New loans could then be taken out at the current rate.

6.7. In November 2007 the PWLB changed its structure of interest rates so that any early repayment of PWLB debt has a higher repayment rate applied. No PWLB restructuring was carried out in 2022/23 due to the higher cost of PWLB repayments making it uneconomical and giving no benefit to the Council.

6.8. The total PWLB interest payments during the year were £12.02m, which is the same as the original budget of £12.02m. It had been assumed in the original budget that the Council would not take out any loans during 2022/23 and no new loans were taken out.

6.9. During the year no short-term borrowing was undertaken for cash flow purposes.

Funding for Invest to Save Schemes

6.10. Capital projects have been completed on energy efficiency improvements at the new Beecroft Art Gallery, replacement lighting on Southend Pier, lighting replacements at University Square Car Park and Westcliff Library and LED lighting at the Priory Park workshop which will generate on-going energy savings. These are invest-to-save projects and the predicted revenue streams cover as a minimum the financing costs of the project.

6.11. To finance these projects in total the Council has taken out interest free loans of £0.161m with Salix Finance Ltd which is an independent, not for profit company, funded by the Department for Energy and Climate Change that delivers interest-free capital to the public sector to improve their energy efficiency and reduce their carbon emissions. The loans are for periods of four and five years with equal instalments to be repaid every six months. There are no revenue budget implications of this funding as there are no interest payments to be made and the revenue savings generated are expected to exceed the amount needed for the repayments. £0.024m of these loans were repaid during the year.

6.12. At the meeting of Cabinet on 23rd June 2015 the LED Street Lighting and Illuminated Street Furniture Replacement Project was approved which was to be partly funded by 25 year reducing balance 'invest to save' finance from L1 Renewables Ltd. Repayments of £0.143m were made during the year and the balance outstanding at 31 March 2023 was £8.20m.

7. Investments

7.1. The table below summarises the Council's investment position at the end of 2022/23 (the average rates for the externally managed funds include the changes in unit price):

Table 9: Investment position

	31 March 2023	2022/23		31 March 2022	2021/22	
	Principal (£000s)	Average Balance (£000s)	Average Rate (%)	Principal (£000s)	Average Balance (£000s)	Average Rate (%)
Call accounts #	19,017	23,740	2.27	19,922	15,485	0.04
Money Market Funds	21,000	39,285	2.03	30,000	48,657	0.13
Notice accounts	0	18,377	0.70	27,500	22,308	0.30
Fixed Term Deposits	27,500	22,787	2.96	32,500	28,973	0.31
Total investments managed in-house	**67,517**	**104,189**	**2.06**	**109,922**	**115,423**	**0.20**
Enhanced Cash Funds	4,962	4,983	0.74	5,032	5,087	(0.83)
Short Dated Bond Funds	14,262	14,366	(2.37)	14,972	15,432	(1.99)
Property Funds	30,504	35,551	(15.19)	37,059	28,399	22.94
Total externally managed funds	**49,728**	**54,900**	**(10.39)**	**57,063**	**48,918**	**12.60**
Total investments@	**117,245**	**159,089**	**(2.24)**	**166,985**	**164,341**	**3.89**

This includes the council's main current account.
@ This excludes the cash held by schools.

7.2. In summary the key factors to note are:

- An average of £104.2m of investments were managed in-house. These earned £2.142m of interest during the year at an average rate of 2.06%. This is 0.18% below the average SONIA Rate and 0.24% below the average bank base rate;

- An average of £5.0m was managed by an enhanced cash fund manager. During the year this earned £0.106m in income distributions at an average rate of 2.13% and the value of the fund decreased by £0.069m at an average rate of -1.39%, giving a combined return of 0.74%.

- An average of £14.4m was managed by two short-dated bond fund managers. During the year these earned £0.370m in income distributions at an average rate of 2.58% and the value of the funds decreased by £0.711m at an average rate of -4.94%, giving a combined return of -2.37%.

- An average of £35.6m was managed by two property fund managers. During the year these earned £1.155m in income distributions at an average rate of 3.25% and the value of the funds decreased by £6.555m at an average rate of -18.44%, giving a combined return of -15.19%.

- In total the value of the externally managed funds decreased by a net of £7.335m due to the changes in the unit price. This is set out in the table below:

  Table 10: Externally managed funds – changes in unit price

Fund	**Table Number**	**Amount (£m)**
Payden Sterling Reserve Fund	13	(0.069)
AXA Sterling Credit Short Duration Bond Fund	14	(0.232)
Royal London Investment Grade Short Dated Credit Fund	15	(0.479)
Patrizia Hanover Property Unit Trust	16	(3.197)
Lothbury Property Trust	17	(3.358)
Total net decrease due to changes in unit price		**(7.335)**

7.3. In line with the capital finance and accounting regulations a Financial Instrument Revaluation reserve will be used to capture all the changes in the unit value of the externally managed funds and these will not impact the revenue account, with only the income distributions impacting that. As a total over all the investments, £3.773m of interest and income distributions were received during the year. The total investment income (including the movement on the unit price of externally managed funds) was -£3.562m, giving a combined return of -2.24%.

7.4. Overall, the actual rate on investments earned in 2022/23 was 2.37% compared to a forecast of 1.06% which was included in the budget. This forecast was based on the best estimates of balances and future interest rates at the time the budget was set and did not envisage the successive bank base rate rises as a reaction to the rapidly increasing inflationary pressures.

7.5. The Council earned a total of £3.773m of interest and investment income through the investment of surplus funds both in-house and with the fund managers. The interest earned was £1.987m higher than the budgeted figure of £1.786m. This was due to the increases in bank base rate. These forecasts were based on the best estimates at the time the budget was set.

7.6. The Council's investment policy is governed by the CIPFA Code of Practice for Treasury Management in the Public Sector, which has been implemented in the 2022/23 Annual Treasury Management Investment Strategy approved by the Council on 24 February 2022. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

7.7 The majority of the cash balances held by the Council are required to meet short term cash flow requirements and therefore throughout the year monies were placed 6 times into Money Market Funds. In the light of the banking crisis and the prevailing financial market conditions there has been greater emphasis on counterparty risk and the security of the principal sums invested.

The table below shows the most used counterparties overall and the countries in which they are based. All deals are in sterling despite the country the counterparties are based in.

Table 11: Counterparties used

Counterparty	Country	No. of Deals	Value of Deals (£m)
Aberdeen Liquidity Fund	Money Market Fund (Various Counterparties)	2	25
Blackrock	Money Market Fund (Various Counterparties)	2	19
Goldman Sachs	Money Market Fund (Various Counterparties)	2	17
Total		**6**	**61**

7.8 In addition to the above, use was also made of call accounts during the year, because they provide instant access to funds. This meant that funds were available for unexpected cash flow events to avoid having to pay higher rates to borrow from the market. During 2022/23 an average of £23.7m was held in such accounts.

7.9 During 2022/23 for cash balances that are not needed to meet immediate or very short term cash flow requirements an average of £18.4m was invested across the following notice accounts:

- a 95-day notice account with Barclays.
- a 95-day notice account with Santander.
- a 185-day notice account with Goldman Sachs

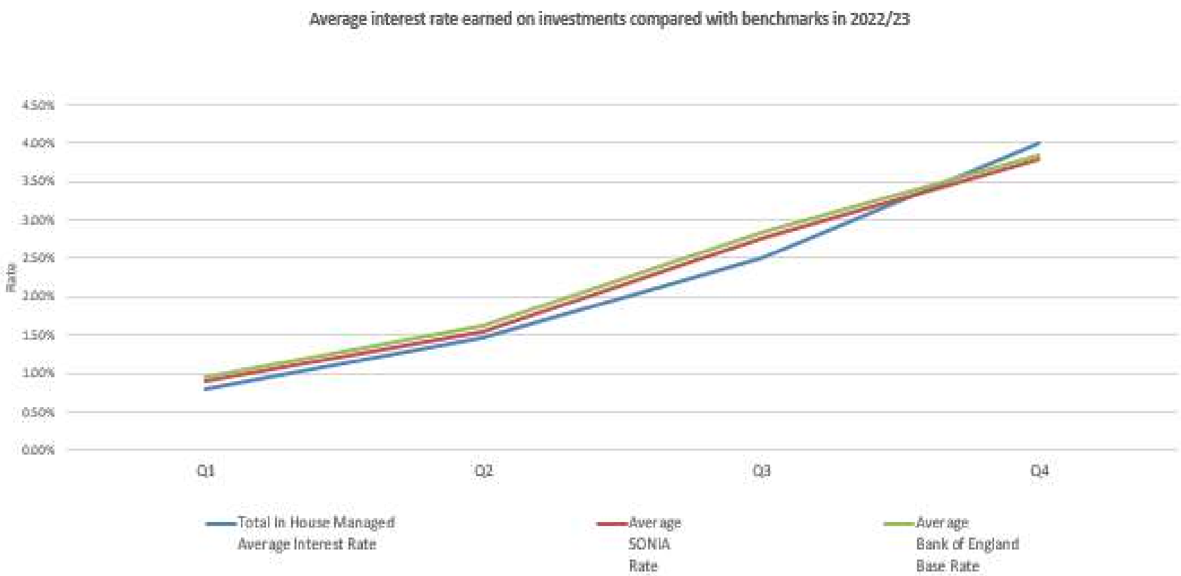
7.10 An average of £22.8m was also invested in fixed term deposits, with the length of deposit depending on the liquidity requirements. The table below shows the fixed term deposits held during the year:

Table 12: Fixed Term Deposits

Counterparty	Date of Deposit	Return Date	Number of days	Interest rate (%)	Amount (£m)
Santander UK Plc	12/07/2021	12/04/2022	274	0.250	5
Goldman Sachs International	09/07/2021	08/04/2022	273	0.225	2.5
Standard Chartered	19/11/2021	19/05/2022	181	0.290	10
National Bank of Kuwait (International) plc	19/11/2021	19/05/2022	181	0.340	15
Lloyds Bank Plc	29/06/2022	29/12/2022	183	2.16	12.5
Goldman Sachs International	29/06/2022	29/12/2022	183	2.19	7.5
Santander UK Plc	21/10/2022	23/10/2023	367	5.00	5
Santander UK Plc	14/11/2022	14/11/2023	365	4.95	10
Lloyds Bank Plc	29/12/2022	29/06/2023	182	4.33	2.5
Lloyds Bank Plc	29/12/2022	29/09/2023	274	4.71	10

7.11 The in-house performance during the year is compared to the average SONIA rate. The graph below shows the Council's performance month by month compared to this benchmark and to the bank base rate.

Graph1: In-house investment performance compared to benchmarks



7.12 Averaged over the year, performance on in-house managed funds was 0.18% below the average SONIA rate for the year and 0.24% below the average base rate for the year. This was due to the interest rates on the notice accounts not increasing in line with the bank or SONIA rates. Notice was given on these accounts early in quarter two and the monies were returned at the end of their notice periods in quarter three and quarter four. These monies were then invested at higher rates.

7.13 There is a lot of uncertainty about how long the rate of inflation will stay at its currently high level before dropping back to a more manageable level. It is possible that the Bank of England with further increase the bank base rate but the amount and timing of any increases is uncertain.

7.14 During the year the Council used the enhanced cash fund manager Payden & Rygel to manage monies on our behalf. An average balance of £5.0m was invested in these funds during the year. The table below shows the movement in the fund value over the year, the income distributions for the year, the returns both for each element and the combined return.

Table 13: Payden Sterling Reserve Fund

2022/23	£m	Investment return (%)
Value of fund at start of year	5.031	
Decrease in fund due to value of unit price	(0.069)	(1.39)
Value of fund at end of year	4.962	
Income distributions	0.106	2.13
Combined investment income (income distribution plus change in fund value due to unit price)	0.037	0.74

8. Short Dated Bond Funds

8.1. Throughout the year medium term funds were invested in two short dated bond funds: Royal London Investment Grade Short Dated Credit Fund and the AXA Sterling Credit Short Duration Bond Fund.

8.2. The monies are invested in units in the fund, the fund is then invested as a whole by the fund managers into corporate bonds in the one to five year range. An income distribution will be generated from the coupon on the bond and income distributions are paid to the Council. The price of units can rise and fall, depending on the price of bonds in the fund so these funds are invested over the medium term with the aim of realising higher yields than short term investments.

8.3. In line with the capital finance and accounting regulations the Financial Instrument Revaluation reserve will be used to capture all the changes in the unit value of the funds. Members should be aware that the investment returns in some quarters will look very good and in other quarters there may be losses reported, but these will not impact the revenue account as only the income distributions will impact that and not the change in the unit price.

8.4. An average of £7.3m was managed by AXA Investment Managers UK Limited. The table below shows the movement in the fund value over the year, the income distributions for the year, the returns both for each element and the combined return.

Table 14: AXA Sterling Credit Short Duration Bond Fund

2022/23	**£m**	**Investment return (%)**
Value of fund at start of year	7.518	
Decrease in fund due to value of unit price	(0.232)	(3.18)
Value of fund at end of year	7.286	
Income distributions*	0.162	2.22
Combined investment income (income distribution plus change in fund value due to unit price)	(0.070)	(0.96)

*Part of this income distribution is an estimate which will be confirmed and distributed in quarter 1 of 2023/24.

8.5. An average of £7.1m was managed by Royal London Asset Management. The table below shows the movement in the fund value over the year, the income distributions for the year, the returns both for each element and the combined return.

Table 15: Royal London Investment Grade Short Dated Credit Fund

2022/23	**£m**	**Investment return (%)**
Value of fund at start of year	7.454	
Decrease in fund due to value of unit price	(0.479)	(6.75)
Value of fund at end of year	6.975	
Income distributions	0.209	2.94
Combined investment income (income distribution plus change in fund value due to unit price)	(0.270)	(3.81)

9. Property Funds

9.1. Throughout the year long term funds were invested in two property funds: Patrizia Hanover Property Unit Trust and Lothbury Property Trust.

9.2. The monies are invested in units in the fund, the fund is then invested as a whole by the fund managers into properties. An income distribution is generated from the rental income streams from the properties in the fund. Income distributions are paid to the Council. There are high entrance and exit fees and the price of the units can rise and fall, depending on the value of the properties in the fund, so these funds are invested over the long term with the aim of realising higher yields than other investments.

9.3. In line with the capital finance and accounting regulations the Financial Instrument Revaluation reserve will be used to capture all the changes in the unit value of the funds. Members should be aware that the investment returns in some quarters will look very good and in other quarters there may be losses reported, but these will not impact the revenue account as only the income distributions will impact that and not the change in unit price.

9.4. An average of £21.8m was managed by Patrizia Property Investment Managers LLP. The table below shows the movement in the fund value over the year, the income distributions for the year, the returns both for each element and the combined return.

Table 16: Patrizia Hanover Property Unit Trust

2022/23	**£m**	**Investment return (%)**
Value of fund at start of year	22.308	
Decrease in fund due to value of unit price	(3.197)	(14.64)
Value of fund at end of year	19.111	
Income distributions*	0.760	3.48
Combined investment income (income distribution plus change in fund value due to unit price)	(2.437)	(11.16)

* Part of this income distribution is an estimate which will be confirmed and distributed in quarter 1 of 2023/24.

9.5. An average of £13.7m was managed by Lothbury Investment Management Limited. The table below shows the movement in the fund value over the year, the income distributions for the year, the returns both for each element and the combined return.

Table 17: Lothbury Property Trust

2022/23	**£m**	**Investment return (%)**
Value of fund at start of year	14.752	
Decrease in fund due to value of unit price	(3.359)	(24.50)
Value of fund at end of year	11.393	
Income distributions*	0.395	2.88
Combined investment income (income distribution plus change in fund value due to unit price)	(2.964)	(21.62)

* Part of this income distribution is an estimate which will be confirmed and distributed in quarter 1 of 2023/24.

10. Reasons for Decisions

10.1. The CIPFA Code of Practice on Treasury Management recommends that Local Authorities should submit reports regularly. The Treasury Management Policy Statement for 2022/23 set out that reports would be submitted to Cabinet quarterly on the activities of the treasury management operation.

11. Other Options

11.1. There are many options available for the operation of the Treasury Management function, with varying degrees of risk associated with them. The Treasury Management Policy aims to effectively control risk to within a prudent level, whilst providing optimum performance consistent with that level of risk.

12. Financial Implications

12.1. The financial implications of Treasury Management are dealt with throughout this report.

13. Legal Implications

13.1. This Council has adopted the ‘CIPFA Code of Practice for Treasury Management in the Public Sector’ and operates its treasury management service in compliance with this code.

14. Carbon Impact

14.1. None arising from this report.

15. Equalities

15.1. None arising from this report.

16. Consultation

The key Treasury Management decisions are taken in consultation with our Treasury Management advisers.

17. Background Papers

None.

18. Appendices

Appendix A - Prudential Indicators 2022/23

Appendix A

Prudential Indicators 2022/23

	Figures are for the financial year unless otherwise titled in italics	2022/23 Revised Indicator	2022/23 Actual
1	Capital Expenditure	£61.820m	£51.822m
2	Capital Financing Requirement (CFR)	£446.804m	£443.157m
3	Gross Borrowing at 31 March	£359.154m	£357.449m
4	Authorised Limit *(against maximum position)*	£395.000m	£395.000m
5	Operational Boundary	£385.000m	£385.000m
6	Ratio of financing costs to net revenue stream	15.30%	15.25 %
7	Maturity structure of fixed rate borrowing: *(against maximum position)*		
	Under 12 months	20%	0%
	12 months to 2 years	30%	2%
	2 years to 5 years	40%	9%
	5 years to 10 years	60%	18%
	10 years to 20 years	100%	22%
	20 years to 30 years	100%	3%
	30 years and above	80%	46%
	Total	N/A	100%